

SHINING A LIGHT ON..... JUPITER ABSOLUTE RETURN FUND

At a glance

Over the past ten plus years bonds have enjoyed a bull market; this is likely to be coming to an end. Investors can no longer expect the same level of returns and potentially there could be greater volatility. Volatility is what investors hate - this is the swing in the value of their investments, either in a positive or negative direction and for bond investors it's definitely not what they are after!

However, investors continue to allocate assets to bond funds because of the perceived low volatility and capital preservation as well as growth and/ or income.

The question is whether there are alternatives and if there are what are they? One sector which has gained popularity is the absolute return sector. There are obvious reasons for this, in many cases it enables investors to gain exposure to the equity market (and therefore capturing some of the upside) whilst protecting on the downside. So effectively equity type growth with bond like volatility, a perfect combination.

One fund we have recently been introduced to is the Jupiter Absolute Return Fund. The concern we have with all these funds and in particular this fund is that the performance although beating the benchmark appears poor. In fact the returns have been negative for every year since launch when taking into account inflation.

This fund has had a change of fund manager who comes with a barrel load of experience in this field. In the twelve months since he took over the fund the return has been 2.59%. What we wanted to establish was whether investors moving from bonds and cash to equities might use this as a vehicle to gain that exposure, whether perhaps it should be used as a part of an overall portfolio or whether it is just not worth investing in.

Who are the team behind the fund?

The fund is managed by James Clunie. James has a strong reputation for managing absolute return strategies. Prior to joining Jupiter and taking over the management of the fund on the 1 September 2013 he worked at Scottish Widows Investment Partnership as an Investment Director of equities, and managed a long / short equity fund and UK long-only funds. He was a senior lecturer in finance between 2003 and 2007, prior to which he worked at Aberdeen Asset Management and Murray Johnstone.

Fund highlights?

The fund adopts a simple long / short equity strategy with around 50 long holdings and 43 shorts. There are a small number of holdings in cash, gold and bonds.

Effectively the strategy plays on taking long positions where James buys a security with the expectation that it will deliver a positive return if the stock goes up in value. So an example he referred to was his overweight position in big oil stocks like BP, Shell, Statoil and Total. These companies have invested in some good, some marginal and some poor projects. Currently they are seen as poor quality stocks.

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However, many have shifted their focus to high quality projects and have removed poor and marginal projects from their books. So although the asset growth will be less focusing on high end projects means the returns are greater. The market will recognise a move from poor quality to average quality and the price will drift upwards to reflect this, in the meantime dividends will also be paid.

If the strategy fails and the stock falls in value then this will create a loss.

To counter the long positions James will take short positions. Taking a short position means that James sells a borrowed security with the expectation of buying it back at a lower price to make a profit. Examples would be high quality companies with strong balance sheets. These are highly rated, overpriced and might suffer earnings downgrades. Examples would be Croda and Diageo – quality companies but overpriced stock.

The risk is that the value goes up and then he will make a loss. He expects to get around 30 or 40 positions wrong in a year but the argument is that if you get it wrong you must be prepared to sell and accept your mistake. This level sounds high but the reality of management is that they will get positions wrong but it is the skill to get more right than wrong, and being disciplined in the approach.

James talked about the risk and this is the potential for loss of capital, currently he is working on a worst case scenario of 2.5% loss. Effectively this gives the fund very low volatility with a focus on protecting capital.

Academically James is extremely bright focusing on identifying what works in the market and what is the potential distribution of returns from certain markets. He describes his approach as patient and disciplined with a willingness to go against the market.

Although not hugely complicated in terms of the strategy there is a considerable amount of work that goes into the fund to deliver returns. Certainly since launch investors would have been better to place the money in cash and investors need to ask why they want the fund. To gain exposure to equities and get equity type returns then certainly this fund has not demonstrated this, to provide better returns than cash and bonds again the fund has not demonstrated that and then to beat inflation and again the fund has failed to achieve that .

On that basis the feeling would be why bother but we are entering uncharted territory. James has only been running the fund for a year and his return over that period is nearly 2.60% which is above inflation of 1.70%. It is also greater than most cash accounts. He has therefore had a strong start to his tenure ship but there are other options which have similar volatility and can deliver higher returns. Investors need to decide whether the risk / reward justifies investment in the fund. For us we struggle to find where the value is however we accept that with uncharted waters this fund might benefit in this uncertain environment.

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Fund performance

Performance since launch is shown below.

	2010	2011	2012	2013	2014	Since Launch
Jupiter Absolute Return Fund	1.48%	-0.15%	0.46%	1.87%	0.90%	0.85% p.a.
iShares Global Inflation Linked Govt Bond	0.81%	11.50%	2.55%	-7.57%	7.15%	4.06% p.a.
Inflation	3.30%	4.50%	2.80%	2.50%	1.71%	

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced. Returns are based on the US share class.

Conclusion

This fund is designed for investors seeking low volatility, capital preservation and growth. The fund aims to generate a positive return over a three year period and it has delivered on that. However, it is clear that the fund has struggled to beat inflation and we struggle to find a position for the fund but we accept that in the market going forward there may be a place for this as part of a balanced portfolio.

The source of information in this note has been provided by Jupiter and is correct as at September 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.